

March 4, 2003

Honorable William “Bill” M. Thomas  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has prepared an estimate of the budgetary impact of H.R. 743, the Social Security Protection Act of 2003, as introduced on February 12, 2003. CBO estimates that, over the 2004-2013 period, the bill would boost federal revenues by \$26 million and reduce direct spending by \$623 million. Almost all of those revenue effects, and two-thirds of the spending, would be in Social Security, which is off-budget. Some of the bill’s provisions would lead to higher administrative costs, which are subject to appropriation. These estimated effects are summarized in Table 1 and detailed in Table 2, assuming enactment in September 2003.

The major provision affecting revenues would permit Kentucky to operate divided retirement systems, under which some but not all public employees are covered by Social Security. Under the proposed change, Kentucky would join 21 other states that have this authority. CBO estimates that, over the 2004-2013 period, that provision would result in an additional \$28 million in Social Security taxes and an additional \$1 million in payments of Social Security benefits.

The provisions with the largest effects on direct spending include:

- Denying Social Security and Medicare benefits to fugitive felons and persons fleeing prosecution (saves \$721 million over 10 years);
- capping the Social Security Administration’s processing charge in attorney-fee cases (which now equals 6.3 percent of the fee and averages about \$165) at \$75, with future adjustments for inflation (costs \$292 million over 10 years); and

- requiring state and local employees who switch jobs in order to avoid the government pension offset to work for five years in their new posts, thus tightening the “last-day” rule (saves \$185 million over 10 years).

Two provisions with relatively small effects on spending include reissuing benefits in certain cases involving representative payees and extending the attorney-fee payment system to the Supplemental Security Income program for three years.

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TABLE 1. SUMMARY OF ESTIMATED BUDGETARY EFFECTS OF H.R. 743, THE SOCIAL SECURITY PROTECTION ACT OF 2003

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	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUES AND DIRECT SPENDING										
Estimated Revenues										
On-Budget	-2	0	0	0	0	0	0	0	0	0
Off-Budget	1	1	2	2	3	3	3	4	4	5
Total	-1	1	2	2	3	3	3	4	4	5
Estimated Direct Spending										
On-Budget	0	-4	-4	-3	0	0	0	0	0	0
Off-Budget	3	-13	-31	-46	-56	-62	-71	-84	-109	-142
Total	3	-17	-35	-49	-56	-62	-71	-84	-109	-142
SPENDING SUBJECT TO APPROPRIATION										
Estimated Outlays for Administrative Costs	18	17	15	16	4	4	4	5	5	6

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**TABLE 2. CBO ESTIMATE OF THE BUDGETARY EFFECTS OF H.R. 743, THE SOCIAL SECURITY PROTECTION ACT OF 2003**

As introduced on February 12, 2003

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	5-yr. 2004-08	10-yr. 2004-13
<b>Direct Spending and Revenues</b>												
Title I. Protection of beneficiaries												
Authority to reissue benefits misused by certain organizations serving as representative payees												
Social Security benefits (off-budget)	1	*	*	*	*	*	*	*	*	*	1	1
Supplemental Security Income benefits	1	*	*	*	*	*	*	*	*	*	1	1
Title II. Program protections												
Authority to impose civil monetary penalties												
Revenues	*	*	*	*	*	*	*	*	*	*	*	*
Denial of Title II benefits to fugitive felons and persons fleeing prosecution												
Social Security benefits (off-budget)	-10	-30	-44	-55	-59	-61	-63	-66	-68	-70	-197	-525
Medicare	*	-7	-13	-17	-22	-24	-26	-28	-29	-31	-59	-196
Title III. Attorney fee payment system improvements												
Cap of \$75 (indexed) on attorney assessments in Title II												
Proprietary receipts (off-budget) a/	12	24	26	28	29	31	33	35	36	38	119	292
Extension of attorney-fee payment system, including processing charge, to Title XVI for a 3-year period												
Proprietary receipts (on-budget) a/	-1	-4	-4	-3	*	*	*	*	*	*	-11	-11
Title IV. Miscellaneous and technical amendments												
Application of waiver authority to demonstration projects initiated before sunset date												
	--	*	*	*	*	*	*	*	*	*	*	*
Funding of \$1-for-\$2 demonstration projects												
Social Security benefits (off-budget)	*	*	*	*	*	*	*	*	*	*	*	*
Treatment of "individual work plans" as qualifying plans for purposes of Work Opportunity Credit												
Revenues b/	-2	*	--	--	--	--	--	--	--	--	-2	-2

continued

**TABLE 2. CBO ESTIMATE OF THE BUDGETARY EFFECTS OF H.R. 743, THE SOCIAL SECURITY PROTECTION ACT OF 2003**

As introduced on February 12, 2003

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	5-yr. 2004-08	10-yr. 2004-13
Limited exemption to duration-of-marriage requirement for survivor benefits where deceased worker had been barred from divorcing institutionalized spouse												
Social Security benefits (off-budget)	*	*	*	*	*	*	*	*	*	*	*	*
Permission for Kentucky to operate divided retirement systems												
Social Security revenues (off-budget)	1	1	2	2	3	3	3	4	4	5	8	28
Other revenues (on-budget)	*	*	*	*	*	*	*	*	*	*	*	*
Social Security benefits (off-budget)	--	*	*	*	*	*	*	*	*	1	*	1
60-month employment requirement for exemption from Government Pension Offset												
Social Security benefits (off-budget)	*	*	-1	-2	-4	-8	-15	-26	-49	-80	-7	-185
Total												
Revenues	-1	1	2	2	3	3	3	4	4	5	6	26
Direct spending	3	-17	-35	-49	-56	-62	-71	-84	-109	-142	-154	-623
Net c/	-5	19	37	51	58	65	75	88	114	147	161	649
On-budget	-2	11	17	20	22	24	26	28	29	31	68	204
Off-budget (Social Security)	-3	8	21	31	36	41	49	61	85	116	93	445
<b>Spending Subject to Appropriation</b>												
Limitation on administrative expenses, Social Security Administration	18	17	15	16	4	4	4	5	5	6	71	96

Assumed enactment date: September 2003.

\* = Less than \$500,000.

- a. The Social Security Administration approves attorney fees for successful Title II claimants and pays them (out of the initial benefit check), retaining 6.3 percent to cover its processing costs. CBO expects receipts from that charge (which are recorded as negative outlays) to climb gradually from \$37 million in 2003 to \$55 million in 2013. Thus, a reduction in those receipts is depicted as a positive outlay. In the Supplemental Security Income (SSI, Title XVI) program, SSA approves attorney fees but does not disburse them.
- b. Preliminary estimate from Joint Committee on Taxation. Estimate assumes that the Work Opportunity Credit expires after calendar year 2003, as scheduled.
- c. Sign depicts the total effect on the surplus: "+" indicates an increase in the surplus (or reduction in the deficit), "-" the opposite.

Honorable William "Bill" M. Thomas  
Page 3

If you wish further details on this estimate, we will be pleased to provide them.  
The principal CBO staff contact is Kathy Ruffing.

Sincerely,

Douglas Holtz-Eakin  
Director

Enclosure

cc: Honorable Charles B. Rangel  
Ranking Minority Member